Testimony of

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The Brookings Institution and Georgetown University

before the

U. S. House of Representatives
Committee on Oversight and Government Reform
Subcommittee on Health Care, District of Columbia, Census and Archives

May 12, 2011

Mr. Chairman and Members of the Subcommittee:

Thank you very much for inviting me to testify today at this hearing on the District of Columbia's budget for FY 2012. I have been involved with the District's finances for more than two decades. Over that period our nation's capital has gone from a financial basket case to a responsibly managed and fiscally healthy city. In my very brief remarks I will try to put the current budget situation of the District in its historical and economic context.

- This year, Washington, like most U.S cities, is dealing with difficult budget choices. The deep recession and the extraordinary weakness in the housing market have cut city revenues, especially property tax revenues. At the same time, the increased needs of the jobless and homeless residents have put an upward pressure on spending. This combination has made balancing the budget far more challenging in the last three years than earlier in the decade, when property values, sales, and incomes were rising more rapidly.

- The impact of the recession on DC's finances has been considerably less serious than in many cities, which were hit harder by the recession and the foreclosure crisis. Cities, such as Detroit, Cleveland and Baltimore, which were dealing with recession in the context of long-term declines in their manufacturing base, have experienced far worse fiscal deterioration. Washington never had a manufacturing base, and its principal economic engine, the federal government and the activities it attracts, is not faltering.

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- Compared to other cities, the DC economy is actually doing quite well. Jobs are up; population is growing; economic development is resuming; and city revenues are beginning to edge up again. However, Washington is a bifurcated city with prosperous areas and low unemployment primarily on the western side of the city and high rates of poverty, unemployment and underemployment primarily on the eastern side. Efforts to mitigate these persistent problems, while improving the quality of city services, guarantee that balancing the budget will prove challenging for DC government not only this year, but in years to come. The District must provide both city and state-like services and has a narrow tax base—mainly because Congress prohibits the District from taxing income earned in the city by non-residents. Hence, fiscal choices in the District will always be difficult.

- Mayor Gray has proposed a combination of spending cuts and revenue increases designed to close a budget gap estimated at $322 million. This is a small shortfall in a $9.6 billion total budget ($6.3 billion without counting federal funds). Both the Mayor's proposed spending reductions and revenue increases are controversial. The DC Council is debating the budget and may come up with different proposals for closing the gap. However, I am confident that the final budget will be balanced in a fiscally responsible way.

- The main reason for my confidence is that the city has a strong record of fiscal responsibility stretching back to the end of the 1990's. More importantly, the Mayor, Council and Chief Financial Officer are strongly committed to maintaining that record and avoiding any danger of triggering a new Control Period. The period of federal takeover is still remembered as unpleasant and humiliating by DC officials and residents.

- I was personally involved in that unfortunate period of DC fiscal history and share the view that it must not happen again. In early 1995 DC was facing imminent bankruptcy. In the absence of a state, the federal government was forced to take extraordinary measures to put the District back on the track to fiscal health. I was President Clinton's budget director and the Administration's point person for this effort. We worked closely with Delegate Eleanor Holmes Norton, Congressman Tom Davis, Speaker Newt Gingrich and the leadership of the Senate. This bipartisan cooperation resulted in rapid passage of 1995 legislation creating the DC Financial Responsibility and Management Authority ("Control Board") and the Office of the Chief Financial Officer. I later chaired the "Control Board," which achieved sustained fiscal solvency and met the statutory requirements for suspending its operations on Sept. 30, 2001.

- District residents and officials took the lessons of that difficult period to heart. For more than a dozen years, DC has been a model of fiscal responsibility. It has continuously balanced its budget, built up its fund balance and cash reserves, and improved its credit rating remarkably. In the last two years, as the recession reduced revenues, the District has drawn down its fund balance--that is what reserves are for--but not to dangerous levels. With revenues beginning to climb again, the District is in a position to replenish its reserves.

- It is now past time for the Congress to recognize the District's exemplary fiscal behavior and pass legislation giving the District fiscal autonomy—the ability to spend its locally raised revenues as its elected government sees fit without review or interference from the federal level. Taking this action would show that Congress believes that representative democracy is the most responsible form of government—not only in far away countries, but right here in our nation's capital. Fiscal autonomy would also improve the efficiency of DC government by eliminating costly delays occasioned by failure to pass the federal budget on time. I attach my testimony on fiscal autonomy before this subcommittee on November 18, 2009.

In short, Mr. Chairman, I believe that the District of Columbia has a manageable fiscal challenge this year and can be counted on to balance its budget in a sustainable and responsible manner. I also believe that the Congress should demonstrate its faith in representative democracy by granting the District fiscal autonomy.

Thank you, Mr. Chairman and Members of the Subcommittee for this opportunity to present my views.

"The Case for Fiscal Autonomy in the District of Columbia"

Statement of Alice M. Rivlin*

Hearing on Greater Autonomy for the Nation's Capital

Subcommittee on Federal Workforce, Postal Service and the District of Columbia

U.S. House of Representatives

Wednesday, November 18, 2009

Mr. Chairman and members of the committee:

I am happy to be here to discuss greater autonomy for the District of Columbia. I support both of the bills before you, but will focus most of my remarks on H.R. 1045, "The District of Columbia Budget Autonomy Act of 2009."

I believe that greater autonomy for the District of Columbia is a test of the seriousness of Congress' commitment to democracy. The United States is justifiably proud of our democratic tradition. We send our finest young men and women to far away places to fight and die for democratic ideals. Our national leaders advocate democracy around the World. We preach that democratically-elected governments are more responsive to public needs, that they require greater accountability for public funds, are more transparent and less corrupt, and that they are more likely to foster economic efficiency and peaceful resolution of disputes. We use our public resources to teach others how to hold elections and make democratically-elected governments function, even in places with no tradition of political freedom or public engagement comparable to our own.

***Alice M. Rivlin is a Senior Fellow at the Brookings Institution and a Visiting Professor at Georgetown University. The views expressed in this statement are strictly her own and do not necessarily reflect those of staff members, officers, or trustees of the Brookings Institution or Georgetown University.**

But right here at home, Congress apparently doubts that the citizens of the District of Columbia can be trusted to elect leaders who will make wise decisions about local policy, even about how to spend their own locally-collected tax revenues. The Home Rule Act of 1973 grudgingly allowed the District to elect a Mayor and City Council, but retained ultimate control over D.C. legislation, budgeting, and borrowing. At the time, Congressional skepticism was understandable. The citizens of the District had been ruled like colonial subjects for a long time, and had no experience with electoral politics or self-government. Home Rule was viewed as an experiment, and when the District came close to bankruptcy in 1995 many viewed the experiment as a failure—never mind that New York, Cleveland, Philadelphia, and many other cities also had similar fiscal crises. So the federal government once more took charge.

I believe that Congress, working with the Clinton Administration, took necessary and appropriate action when it created the D.C Financial Resources Management and Assistance Authority (better known as the "Control Board") in 1995. That legislation temporarily transferred fiscal authority to an unelected board in a serious crisis, but provided for the transfer of power back to elected leadership once the District had demonstrated its ability to handle its financial affairs responsibly by balancing its budget and obtaining clean audits for several successive years. The same legislation created an independent Office of the Chief Financial Officer (OCFO)—a much needed contribution to strengthening fiscal oversight in the District. Control Board actions, supported by the City Council and combined with an improving economy, turned the District's budget outlook from dismal to positive in a remarkably short time. The District of Columbia Revitalization Act of 1997 also helped put the District's finances on a more solid basis by transferring to the federal government some of the state-like spending responsibilities of the District and relieving it of the unfunded pension liability left over from the "colonial" period. By the time I took over as the second chair of the "Control Board" in 1998, the city was on the way back to fiscal health. The Board then worked closely with the Mayor,

the Council, and the OCFO to transition the city back to elected leadership, and went out of business on September 30, 2001.

Young democracies learn from their mistakes, and the District of Columbia Government has amply demonstrated in recent years that it learned from the experience of the 1990's and is able to manage its own resources responsibly. It has balanced its budget every year since the control period ended and earned clean audits (albeit with some expressions of concern from the auditors about specific weaknesses). It has built up a large fund balance and significant cash reserves. Growing Wall Street respect for the District's financial management has been reflected in increasingly favorable ratings for its general obligation bonds and a triple A rating for a recent income-tax backed bond issue. The executive and the legislative branches have often had different priorities, but they have worked out their differences and made budget decisions on time. The District weathered the recession at the beginning of this decade, making the necessary adjustments when slower economic growth cut into revenues. It appears to be adjusting to the more severe current recession as well.

Now is the time for the Congress to show its commitment to democratic government by trusting the citizens of the District of Columbia, through their elected officials, to handle their own fiscal affairs without interference or delay from Congress. In fact, in recent years Congress has interfered far less than it used to in District budgets and tried to accommodate the District's needs by keeping District appropriations from getting caught in lengthy disputes over other federal spending bills that drag on long after the budget year has begun. This confidence is reassuring but should be reflected in law.

If H.R. 1045, "The District of Columbia Budget Autonomy Act of 2009," were enacted, District officials could design their own process for coming to budget decisions. Once a budget reflecting spending out of its own source revenues was passed by the Council and signed by the Mayor, it could not be altered by Congress

or delayed by the Congressional appropriations cycle. The District would be able to choose its own fiscal year. Like most States it would likely choose a fiscal year starting on the first of July to shorten the period of budget debate and make sure educational institutions received their funding well before the school year started. Such a vote of confidence in democracy and in the citizens of the District would free the Congress from the task of second guessing the District's government on local spending issues. Enacting this legislation would not affect Congressional responsibilities for the District under the Constitution, nor would it repeal the legislation that would revive the "Control Board" in the event of a future financial meltdown in the District.

Budget autonomy for the District is a win-win for the District and the federal government, as well as a demonstration of national confidence in the democratic process.

Thank you, Mr. Chairman and members of the Committee.

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In 2010 Ms. Rivlin was named by President Obama to the Commission on Fiscal Responsibility and Reform (The Simpson Bowles Commission). She also co-chaired, with former Senator Pete Domenici, the Bipartisan Policy Center's Task Force on Debt Reduction.

Ms. Rivlin served as Vice Chair of the Federal Reserve Board (1996-99). She was Director of the White House Office of Management and Budget in the first Clinton Administration. She chaired the District of Columbia Financial Management Assistance Authority (1998-2001). Ms. Rivlin was the founding Director of the Congressional Budget Office (1975-83). She was director of the Economic Studies Program at Brookings (1983-87), and Director of the Brookings Greater Washington Research Program (2001-2011).

Ms. Rivlin received a MacArthur Foundation Prize Fellowship in 1983 and the Moynihan Prize in 2008. She was named one of the greatest public servants of the last 25 years by the Council for Excellence in Government in 2008. She has taught at Harvard, George Mason, and The New School Universities. She has served on the Boards of Directors of several corporations, and as President of the American Economic Association (1986).

Ms. Rivlin contributes to newspapers, television, and radio, and is a regular commentator on Nightly Business Report. Her books include *Systematic Thinking for Social Action* (l971), *Reviving the American Dream* (1992), and *Beyond the Dot.coms* (with Robert Litan, 2001). She was co-editor of the Brookings series, *Restoring Fiscal Sanity*, which focused on the budget and health care spending.

Ms. Rivlin was born in Philadelphia and grew up in Bloomington, Indiana. She received a B.A. in economics from Bryn Mawr College and a Ph.D. from Radcliffe College (Harvard University) in economics. She is married to economist Sidney G. Winter, Professor Emeritus at the University of Pennsylvania. She has three children and four grandchildren.

Committee on Oversight and Government Reform
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)(5)

Name: Alice M. Rivlin

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2008. Include the source and amount of each grant or contract.

none

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

none

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2008, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

none

I certify that the above information is true and correct.
Signature: Alice M. Rivlin

Date: May 10, 2011